Manufacturing pioneers since 1847.

GSW

groundbreakers_making change happen

2002 ANNUAL REPORT

Financial Highlights

(in thousands, except per share amounts)	2002	2001	2000	1999	1998
	$	$	$	$	$
Operating Results					
Sales	413,851	222,484	211,096	227,127	212,656
Income (loss) from continuing operations before income taxes	10,074	(4,565)	391	9,778	1,136
Income (loss) from discontinued operations, net of tax	–	–	–	4,456	(1,070)
Net income (loss) for the year	6,520	(2,592)	873	10,746	(126)
Cash flow from continuing operations	46,229	8,178	(3,355)	933	2,865
Capital expenditures	8,309	5,873	7,356	3,991	2,288
Per Share					
Net income (loss)	1.91	(0.75)	0.24	2.96	(0.04)
Continuing operations	1.91	(0.75)	0.24	1.73	0.25
Discontinued operations	–	–	–	1.23	(0.29)
Book value	17.50	20.06	20.16	19.95	18.07
Dividends paid	4.00	0.20	0.20	0.20	0.20
Average number of shares outstanding	3,420	3,448	3,596	3,630	3,715
Financial Position					
Working capital	46,704	39,828	45,235	49,923	38,610
Capital assets, net	58,977	19,007	16,362	11,970	15,330
Total assets	245,500	107,409	111,722	115,750	112,411
Shareholders' equity	59,865	69,188	72,479	72,409	67,115
Financial Ratios					
Income (loss) from continuing operations	2.4%	(2.1)%	0.2%	4.3%	0.5%
Current ratio	1.5	2.2	2.3	2.3	1.9

Cover: *Groundbreaker* Gail Newton, Environmental Health & Safety Coordinator, GSW Water Heating. It's a new era for health and wellness at GSW Water Heating. Under Gail Newton's enthusiastic leadership, team members have reduced time lost due to accidents by 60%. Cheerful, caring and committed, Gail takes a proactive approach to enhancing workplace safety.

"It's the man who thinks when others dream, who decides when others hesitate, who works when others wait, who succeeds when others fail." JOHN MCCLARY

At GSW, we are proud of our heritage. For over 150 years, we have been breaking ground in the industries in which we participate. This groundbreaker philosophy has resulted in GSW being a strong, growing Company. A Company thriving today, when most of our contemporaries have faded into history. Our philosophy rewards people who come to work with the determination to improve on their performance of yesterday, to be successful, to be winners.

Our underlying principle is Operational Excellence. We are totally focused on customer service. We seek to be the best supplier to every one of our customers. We work hard at developing new products and new technologies to continue our position of leadership. We strive to be low-cost producers in our businesses. We want to excel in everything we do.

We intend to continue growing our Company. In today's competitive marketplace, size is important. We see a significant potential for growth and prosperity. We are determined to continue achieving this through a reasoned, careful process of organic growth and strategic acquisitions.

We changed the volume.

No one likes to hear the purr of a superior high-efficiency water heater more than our development team at American. That encouraged them to develop an enhanced Polaris® product line with the quietest operation of any comparable heater line on the US market. Expect new volumes from this recently expanded high-efficiency line.

GROUNDBREAKER DEVELOPMENT TEAM
JOHN FABRIZIO, ANDY SHUMAKER, STEVE WOOD, JOHN POPE, MICKEY ROSENBALM, BOB CHRISTIAN, JOE CARPENTER, PHILIP WALLACE, DAVID YARBERRY, AND JOHN BANNER. (NOT PICTURED DAVE GOTHARD)
American Water Heater Company

REPORT TO SHAREHOLDERS

2002 OPERATIONS

One year ago, we spoke of the significant work done in 2001 to position the Company for a turnaround in profitability. In 2001 we improved the competitiveness of all of our businesses, and by the second half of 2001 we began to show improvements in profitability. We predicted a return to full profitability for 2002.

We are pleased to report that our objectives were accomplished. Key highlights of 2002 are:
- $9.1 million turnaround in net income
- 86% increase in revenues
- Highest income from operations in GSW's history
- Two acquisitions
- Divestiture of the pump operations
- Strong new additions to the GSW Management Team
- Special dividend to shareholders

Net income for 2002 was $6.5 million, or $1.91 per share. This is an increase of $9.1 million from 2001's net loss of $2.6 million, or ($0.75) per share. Included in 2002's net income is a pre-tax provision for unusual items of $2.3 million. 2002 income from operations, excluding the loss from unusual items, reached an all-time record of $12.4 million.

In 2002 we received no dividends from our 20% equity interest in Camco Inc., compared to receiving dividends of $0.6 million in 2001.

In June, in addition to the annual dividend of $0.20 per share, the GSW Inc. Board of Directors declared a special dividend of $3.80 per share.

Cash flow from operations was $46.2 million in 2002, which financed our net investing activities of $43.5 million. After payment of the regular and special dividend our overall cash position was $12.4 million at the end of year. Our continuing net cash position is available to fund future acquisitions.

We significantly changed the focus, scope and nature of your Company this year with the acquisition of American Water Heater Company ("AWHC") of Johnson City, Tennessee, and the profitable sale of our pump operations in April. Since the acquisition, AWHC has performed very well, and was a significant contributor to income in 2002. In addition, in August, we acquired the vinyl rainware system trademarks and assets of Bemis Manufacturing Company of Wisconsin, including the well-known Rain Master® trademark.

We are very proud of our achievements in 2002. In addition to the major changes noted above, all aspects of the Company performed well. GSW Water Heating and GSW Building Products had strong years, with both divisions achieving significant gains in productivity.

All of GSW's employees are to be congratulated on their achievements in 2002. Our new Groundbreakers Program recognizes the difference employees can make in improving our operations. To date, our groundbreakers have introduced initiatives such as cost reductions, productivity improvements and product innovations that saved over $6 million last year.

GSW is well positioned for 2003 and beyond. Productivity is up across the Company, profitability is more stable, and a strengthened Management Team is aggressively focused on growth in both the business and in shareholder value.

We changed the record.

Faced with an unacceptable level of down time in an injection moulding machine, Charlene and her dedicated team were quick to identify and solve the problem. Within a month, they raised efficiency from as low as 70% of standard to an average of 95%. In the process, they developed new procedures for machinery maintenance.

GROUNDBREAKERS
CHARLENE RIDLEY AND TEAM
GSW Building Products

BUSINESS REVIEW

Improved productivity leading to reduced costs, continued best-in-class customer service, organic sales growth, strategic decisions, and exciting acquisitions underscored the success of 2002.

GSW Water Heating entered 2002 with a strong focus on continued productivity improvements through "Project Trojan". Building on the momentum that we had established in 2001, new projects were developed and implemented, continuing to increase productivity and reduce costs. With the acquisition of American Water Heater Company ("AWHC") in April, new opportunities arose to capitalize on best practices between the two companies. Aggressive targets were set and met by both companies.

In addition to an improved cost structure, sales in the Canadian market showed excellent growth in 2002, helping fuel a strong year of operating profits. However, the company did face an issue with regard to one type of water heater sold to certain customers in the mid 1990's. In partnership with these customers, the company will jointly complete an inspection, and if required, service of the affected heaters. Although the discussions are not final, the company has recorded a provision as of December 31, 2002. This provision is included as an unusual item for the company.

Don Hambly joined the GSW team as the new President of GSW Water Heating in August of 2002. Don is a Professional Engineer with an extensive background in manufacturing and supply chain best practices. Don has brought renewed focus to numerous areas of our business, from improved manufacturing and quality control practices to strengthening our relationships with key customers.

GSW Building Products showed a strong recovery in 2002. Led by Dennis Nykoliation and his "back to basics" approach, strong sales growth was achieved in both the TuffFlo™ vinyl rainware system product line and the Yardcrafters™ vinyl railing product line. In addition, cost reductions were achieved across the company, adding to the bottom line.

Strategic decisions were made to exit the polyethylene fence business that we had entered in 2001, as well as to cease our attempts to commercialize a licensed wood composite deck technology. Although we remain interested in opportunities in the wood composite deck market, we concluded that the technology we were licensing was not viable from a cost of production standpoint. As a result, the company has recorded a write-down to capital assets as of December 31, 2002.

We are pleased to now include American Water Heater Company of Johnson City, Tennessee, in the GSW group of Companies. The addition of AWHC immediately increased our revenues in this product segment almost five-fold on an annualized basis. In addition, GSW acquired a very strong Management Team led by Bob Trudeau, President.

AWHC is an extremely well-managed company, with the lowest cost of production in the United States, products with innovative, leading technology, and an industry-leading shipping record. AWHC enjoyed one of its better periods of profitability in recent times and was immediately accretive to earnings in 2002.

The acquisition of AWHC allowed us to compare best practices with GSW Water Heating, resulting in significant cost reductions for both companies.

We also made the strategic decision in 2002 to divest Aermotor Pumps, Inc. and our Canadian operations known as GSW Pump Company. The sale of this business, at a significant premium to book value, was completed in April of 2002, to Sta-Rite Industries, Inc. of Delavan, Wisconsin.

The divestiture of Aermotor and GSW Pump Company resulted in a pre-tax gain in 2002 of $4.6 million. This has been classified as an unusual item.

All of these moves contributed to a turnaround year in 2002, and have positioned GSW as a strong, vibrant Company, poised for further growth and looking forward to new opportunities in the future. We are pleased that the markets have noted some of our success, and rewarded us with a doubling of our share price in 2002.

We changed the answers.

What's good enough? For Ann-Marie McIntosh and the Customer Service Group, it's not the North American call centre best practices standard requiring 80% of all calls to be answered within 20 seconds. Ann-Marie and her team thought a live response rate of 92% within 15 seconds was more like it.

GROUNDBREAKERS

ANN-MARIE McINTOSH AND CUSTOMER SERVICE GROUP

GSW Water Heating

Andrew Ferrier
President & Chief Executive Officer
GSW Inc.

John Barford
Chairman
GSW Inc.

BOARD OF DIRECTORS AND MANAGEMENT

We are pleased to announce the addition of Geoffrey Cumming to the GSW Board of Directors. Geoff brings to GSW extensive international experience as Vice Chairman, Gardiner Group Capital Corporation and Garbell Holdings Limited, and Deputy Chairman, Emerald Capital Limited. We look forward to Geoff's contributions.

In April 2003, Nancy Thomson will retire from the Board. We thank Nancy for her considerable contributions to the Board over the years and wish her well in her retirement.

Doug Fixter, Senior Vice President, Organizational and Business Development of GSW Inc., retired in April after 33 years with GSW. On behalf of the Board, we would like to express our appreciation to Doug for his many years of dedicated service to GSW, and wish Doug and his wife, Donna all the best for a healthy and happy retirement.

After the acquisition of AWHC, Peter Martineau, Vice President & Chief Financial Officer of GSW Inc., accepted the position of Senior Vice President, Finance & Chief Financial Officer of AWHC, and relocated to Johnson City. On behalf of the Board, we would like to thank Peter for his contributions to GSW, and wish him well in his new role at AWHC.

In October, Jamie Hyde joined us as the new Vice President, Finance & Chief Financial Officer of GSW Inc. Jamie brings to GSW a wealth of experience as an audit partner at Ernst & Young, and more recently, as Senior Vice President of Ernst & Young Corporate Finance Inc. We are delighted to welcome Jamie to the team.

Terry Parsons, President of GSW Water Heating, left the Company in June. We thank Terry for his contributions to GSW over his tenure.

Other senior management appointments previously mentioned were the addition of Don Hambly as the new President of GSW Water Heating, and Bob Trudeau as President of American Water Heater Company.

A.A. Ferrier
President & Chief Executive Officer

J.A. Barford
Chairman

REVIEW OF GSW OPERATIONS AND PRODUCT LINES

Peter Sharpe
Executive Vice President, Corporate Services GSW Inc.

Jamie Hyde
Vice President, Finance & Chief Financial Officer GSW Inc.

CORPORATE

GSW Inc. is a diversified North American manufacturer of durable consumer products. Headquartered in Canada, we operate through two main business platforms: Water Products and Building Products.

Our Water Products business consists of two separate companies: GSW Water Heating, the leading Canadian manufacturer of water heaters, and American Water Heater Company, a leading US manufacturer of water heaters and the industry leader in technical innovation and customer service.

The Building Products business operates as GSW Building Products, and is the leader in North America in vinyl rainware systems, as well as a growing force in the burgeoning vinyl railing segment.

Bob Trudeau
President American Water Heater Company

AMERICAN WATER HEATER COMPANY

American Water Heater Company ("AWHC") was acquired in April 2002. It is a major supplier of residential and commercial water heaters to the US market and 25 foreign countries. The company operates from two plants in Johnson City and one in Knoxville, Tennessee, and has over 1,000 employees.

AWHC has become the innovation leader in the industry. It developed and introduced to the US market the industry's first flammable vapour-resistant water heater under the name Flame Guard™. Three and one-half years later, in July 2003, this flammable vapour resistance will become mandatory for virtually all gas-fired water heaters sold in the US market. For this innovation, the company was recognized by the US Consumer Product Safety Commission (CPSC) and was awarded the Chairman's Commendation for significant contributions to product safety. The Flame Guard™ development was followed by another technical innovation on the electric water heater side of the business, with the introduction of the Energy Smart® water heater, the industry's first electronically controlled electric water heater. On a model-for-model basis, Energy Smart® heaters are the most energy-efficient electric water heaters on the market today.

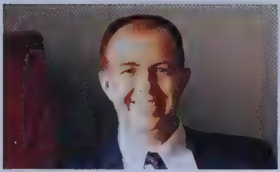
The company has emerged in recent years as the industry leader in delivery capability as well, with a record-setting ship-on-time-complete customer service performance of 99% for all products in 2002. AWHC's capabilities in this area were highlighted with the naming of American Water Heater Company as 2002 Supplier of the Year for the Appliances Division of Lowe's Home Improvement Warehouse.

AWHC markets its products under three major brands: the Whirlpool brand, which is sold to the mass-merchant channel; the American PROLine™ brand, which is sold to the plumbing wholesale channel; and the U.S. Craftmaster™ brand, which is sold to the retail channel.

AWHC's financial results were consolidated into GSW Inc.'s results for the last nine months of 2002. During the period of GSW ownership, American enjoyed financial performance that exceeded our expectations, fueled by strong growth of American's two new flagship innovations – Flame Guard™ and Energy Smart™. These products have been well accepted by the public, and we expect continued growth in these higher-value-added products.

Cost control programs also produced excellent results. Significant materials cost reductions were achieved, while manufacturing productivity increased for the sixth year in a row. Distribution costs were reduced in spite of higher shipping volumes. Warranty costs were aggressively managed and produced favourable results.

All AWHC employees contributed to the solid performance. The company has a continuous improvement culture, focused on Operational Excellence in all aspects of its business, and sees additional exciting challenges and opportunities in 2003.



Don Hambly
President
GSW Water Heating

GSW WATER HEATING

GSW Water Heating ("GSW WH") is Canada's leading designer and manufacturer of residential and commercial water heaters. It manufactures all of its products in a centrally located facility in Fergus, Ontario and employs approximately 400 people. GSW WH supplies a full range of electric, gas, propane and oil-fired products to customers in the wholesale, retail and energy services channels across Canada, as well as internationally. GSW WH services its customers through a nationwide sales force. Its products are sold under the flagship GSW label and the highly respected John Wood™ brand.

2002 was a year of significant change and progress for GSW Water Heating. Operationally, it had a strong year, registering major gains in both sales and profitability. These performance improvements were a result of particularly strong Canadian sales and continued focus on productivity and other operational efficiencies. Margins on products sold improved as the company experienced significant growth in high-end products and success in its efforts to reduce product costs. As well, the company re-qualified its ISO 9001 accreditation in 2002.

In June, GSW Water Heating initiated an exciting redesign of its commercial-duty water heaters. Prototypes were unveiled at a major trade show in late October and the launch of the full line of commercial gas and electric products is slated to begin in the second quarter of 2003.

Dennis Nykoliation
President
GSW Building Products

GSW BUILDING PRODUCTS

In 2002, GSW Thermoplastics Company was renamed GSW Building Products ("GSW BP"). GSW BP currently competes in two market segments in the building products industry. It is the North American leader in vinyl rainware systems, including gutter, downspouts and related products, distributed under the TuffFlo™ and Rain Master® brand names. This product family is primarily focused on the DIY ("do-it-yourself") and retail channels of distribution. GSW BP produces enough gutter and downspout lengths in one year to cover the distance across North America from the Atlantic to the Pacific and back again.

In addition, GSW BP manufactures, markets and distributes vinyl railing products under the Yardcrafters™ brand. The primary focus has been to market this product to contractors, installers and, to a lesser extent, the retail channel.

Its 80,000 sq. ft. plant in Barrie, Ontario is vertically integrated, having developed a core competency in the material compounding, extrusion and injection moulding of all product components. With about 150 employees, GSW BP distributes its products throughout North America from its 50,000 sq. ft. distribution centre in Barrie.

For GSW BP, 2002 was a turnaround year. The retail gutter business, which grew by 10% and the vinyl railing product line, which was up 35% over last year, fueled strong results. The positive financial performance of the Building Products business supports the fact that its "back to basics" strategy has been successful.

In 2002, GSW BP reluctantly but necessarily decided to discontinue its residential fence business, clear out the remainder of its inventory, and exit the product line. In addition, it terminated the wood composite deck R&D initiatives based upon its current technology.

On August 1, 2002, GSW announced that it had acquired the vinyl rainware business of the Bemis Manufacturing Company, further solidifying its leading position as the premier manufacturer and marketer of that product in North America.

Operationally, the company positioned itself for future growth by strengthening its management team across the complete spectrum of its operations and by maintaining its ISO 9001 accreditation.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

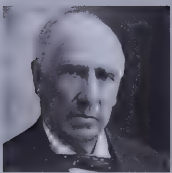
December 31, 2002 and 2001

The accompanying consolidated financial statements of GSW Inc. and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

GSW Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. In addition, GSW Inc. has appropriate policies and procedures dealing with the protection of the environment and safety in the workplace. Compliance reviews are conducted to provide reasonable assurance that they are effective.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit, Environmental and Pension Committee.



GSW's history begins in 1847, twenty years before Confederation, when its parent company was founded just outside of Toronto. The new McClary Manufacturing Company began operations as a maker of high-quality wood-burning stoves.

Dedicated pioneers from 1944 who worked hard for General Steel Wares. GSW had had been formed seventeen years earlier in 1927. It was then that McClary Manufacturing merged with four other innovative pioneering companies to "unite the forces of sheet metal producers in Canada."

Beatty Bros. which began operations in 1874 as a designer and manufacturer of farming equipment joined GSW in 1962 . In 1911, Beatty Bros. Limited built its first major plant on Hill Street in Fergus on 72 acres bought for $4,140.

In 1974 GSW's Water Heating Division established new manufacturing facilities at Fergus with machinery capable of producing glass-lined tanks.

The Audit, Environmental and Pension Committee is appointed by the Board with all of its members being independent directors. The Committee meets periodically with Management, as well as the external auditors, to discuss internal financial controls, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The Company's consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of shareholders. Ernst & Young LLP has full and free access to the Audit, Environmental and Pension Committee.

A.A. Ferrier
President & Chief Executive Officer

J.M.E. Hyde
Vice President, Finance & Chief Financial Officer

In 1976 GSW, in partnership with GE, formed a major appliance division called CAMCO.

1976 also saw GSW acquire Centre Moulded Plastics Limited in Barrie, Ontario. The Company's continual expansion led to its reorganization in 1981, when its operating divisions segregated into Building Products and Water Products. GSW's corporate philosophy was to claim a major segment of every market it participated in.

In 1984 GSW acquired Toronto's John Wood Mfg. Ltd., a leading supplier of water heaters and tanks to Canadian residential and commercial markets. Ten years later, in another leap forward, the Company introduced robotics at GSW Building Products. The new technology, applying auto industry techniques, helped create a foamed polyurethane seal.

In 2002, a wholly-owned subsidiary of GSW acquired American Water Heater Company, one of the largest manufacturers of high-quality water heater products in the world.

Auditors' Report

To the Shareholders of GSW Inc.

We have audited the consolidated balance sheets of GSW Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Kitchener, Canada
February 5, 2003

Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	2002 $	2001 $
ASSETS		
Current		
Cash and cash equivalents	12,382	19,384
Accounts receivable	87,876	23,246
Inventories	38,175	24,168
Income taxes receivable	–	2,647
Prepaid expenses	9,345	1,821
Future income taxes	4,937	2,287
Total current assets	152,715	73,553
Marketable securities *(note 4)*	18,173	-
Capital assets *(note 5)*	58,977	19,007
Future income taxes	2,535	1,749
Total operating assets	232,400	94,309
Investment in Camco Inc. *(note 6)*	13,100	13,100
Total assets	245,500	107,409
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *(note 7)*	3,900	–
Accounts payable and accrued liabilities	93,037	32,389
Income taxes payable	944	–
Current portion of long-term liabilities *(note 8)*	8,130	1,336
Total current liabilities	106,011	33,725
Long-term liabilities *(note 8)*	79,624	4,496
Total liabilities	185,635	38,221
Commitments and contingencies *(note14)*		
Shareholders' equity		
Share capital *(note 9)*	2,114	2,114
Retained earnings	57,395	64,555
Cumulative translation adjustment	356	2,519
Total shareholders' equity	59,865	69,188
Total liabilities and shareholders' equity	245,500	107,409

See accompanying notes

On behalf of the Board:

E. Kukiel

E.A. Kukiel
Director

G.L. Moreau

G.L. Moreau
Director

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31 (in thousands of dollars, except earnings per share)	2002 $	2001 $
SALES	413,851	222,484
OPERATING COSTS		
Cost of sales, selling and administrative	392,160	220,051
Amortization	9,281	3,490
Interest expense	215	–
Interest income	(179)	(232)
	401,477	223,309
Income (loss) from operations before the undernoted	12,374	(825)
Unusual items *(note 11)*	(2,300)	(4,300)
Investment income	–	560
Income (loss) before income taxes	10,074	(4,565)
Income taxes (expense) recovery *(note 12)*	(3,554)	1,973
Net income (loss) for the year	6,520	(2,592)
Retained earnings, beginning of year	64,555	69,390
Dividends *(note 9)*	(13,680)	(689)
Premium on repurchased shares *(note 9)*	–	(1,554)
Retained earnings, end of year	57,395	64,555
Earnings (loss) per share *(note 10)*	1.91	(0.75)

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31	2002	2001
(in thousands of dollars)	$	$
OPERATING ACTIVITIES		
Net income (loss)	6,520	(2,592)
Items not involving cash:		
Amortization	9,281	3,490
Insurance loss reserve	7,236	–
Future income taxes	(3,431)	(76)
Gain on sale of Aermotor Pumps, Inc.	(4,600)	–
Write-down of capital assets	1,678	–
	16,684	822
Net change in non-cash working capital balances related to operations	29,492	7,356
Increase in long-term liabilities related to operations	53	–
Cash provided by operating activities	46,229	8,178
INVESTING ACTIVITIES		
Purchase of marketable securities	(18,173)	–
Acquisition of American Water Heater Company	(38,067)	–
Proceeds on disposal of Aermotor Pumps, Inc.	21,098	–
Purchase of capital assets	(8,309)	(5,873)
Cash (applied to) investing activities	(43,451)	(5,873)
FINANCING ACTIVITIES		
Increase in bank indebtedness	3,900	–
Dividends paid	(13,680)	(689)
Repurchase of share capital	–	(1,648)
Cash (applied to) financing activities	(9,780)	(2,337)
Net cash (applied) during year	(7,002)	(32)
Cash and cash equivalents, beginning of year	19,384	19,416
Cash and cash equivalents, end of year	12,382	19,384

See accompanying notes

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001
(in thousands of dollars, except number of shares)

1. NATURE OF OPERATIONS

GSW Inc. is incorporated under the laws of Canada. The Company is involved in the Water Products Business and in the Building Products Business. The Water Products Business consists of GSW Water Heating and American Water Heater Company who manufacture and distribute gas, electric, and oil-fired water heaters and related products principally for the North American market. The Building Products Business consists of GSW Building Products (formerly GSW Thermoplastics) who manufactures and distributes vinyl rainware systems and vinyl railings systems for the North American market. The Company has two manufacturing facilities in Ontario and three in Tennessee.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting policies.

Principles of consolidation
These consolidated financial statements include the accounts of GSW Inc. ("the Company") and its subsidiaries from the dates of their acquisition. All significant intercompany amounts and transactions have been eliminated on consolidation.

Inventories
Inventories are valued at the lower of cost and market value. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and variable and fixed manufacturing overhead costs. Market value is net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

Capital assets
Capital assets are stated at acquisition cost, including transportation and installation charges. Capital assets are amortized over their estimated useful lives using the following methods and rates:

	Method	Rate
Buildings and building improvements	Straight-line	3 to 48 years
	Declining balance	5%
Machinery and equipment	Straight-line	3 to 15 years
	Declining balance	20%
Computer systems	Straight-line	3 to 5 years
Tooling	Straight-line	3 to 5 years

No amortization is recorded on assets until the asset is placed into use. Capital assets that are no longer in productive use are written down to net realizable value.

Investment in Camco Inc.
The investment in Camco Inc. is accounted for on a cost basis. Under the cost method, dividends are recorded as income and the carrying value of the investment is adjusted only when a decline in the market value is considered to be other than temporary.

Long-term liabilities

Product liability and insurance loss reserve
The Company is insured for product liability through the purchase of commercial insurance, a part of which is reinsured by a Qualified Insurance Company that is a wholly-owned subsidiary of the Company. The Qualified Insurance Company maintains loss reserves that include provisions for known claims and for claims incurred, but not reported that are established and adjusted in accordance with generally accepted loss forecasting principles and models prepared by an independent loss reserve specialist. The Qualified Insurance Company, as required under the terms of its reinsurance agreement, maintains collateral to meet its obligations under the reinsurance agreement.

As a condition of the acquisition of American Water Heater Company, by a wholly-owned subsidiary, the subsidiary assumed the obligation to settle all future product liability claims related to product sold prior to acquisition. The purchase method of accounting for business combinations requires the product liability reserve to include a provision for future claims related to product sold prior to acquisition, even though the incidents giving rise to this obligation had not occurred as of the date of acquisition. This reserve is drawn down as the population of products in service as at the time of acquisition decreases.

Warranty

Anticipated costs related to product warranty are recorded in the year in which the product is sold.

Employee benefit plans

The Company contributes to a number of defined contribution pension plans for salaried and hourly employees. Pension costs are charged to operations as contributions are made.

The Company assumed defined benefit pension plans as part of the acquisition of American Water Heater Company. Earnings are charged with the cost of pension benefits earned by employees as services are rendered. Independent actuaries using management estimates and the projected-benefits method determine the cost. Actuarial gains or losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized to income over the average remaining service lives of the members.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in other commercial instruments with terms of three months or less. These instruments are carried at cost that approximates market value.

Foreign currency translation

The accounts of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the rate in effect at year-end and revenues and expenses at the average rate for the year. Gains or losses arising from the translation are deferred in a "Cumulative Translation Adjustment" account in shareholders' equity until there is a realized reduction in the investment.

The accounts of foreign subsidiaries that are considered to be integrated are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the rate in effect at year-end. Non-monetary assets and liabilities are translated at historic exchange rates. Revenue and expenses (other than amortization) are translated at the rate in effect on the transaction date or at the average rate for the year. Gains or losses arising from translation are included in income.

Foreign currency transactions are translated into Canadian dollars at the rate of exchange at the date of the transaction. Foreign denominated monetary balances are translated using the rate of exchange in effect at the end of the year and any resulting gains or losses are included in income.

Income taxes

The Company follows the liability method of accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

Basic earnings per share is calculated based on the weighted average number of Class "A" Common and Class "B" Subordinate Voting Shares outstanding during the year.

Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Use of estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. These estimates and assumptions are based on Management's assessment of available information. Actual results could differ from these estimates. Areas where the nature of estimates makes it reasonably possible that actual results could materially differ from amounts estimated include product liability reserves and insurance loss reserves.

Research and development

The Company incurred costs on activities that relate to research and development of new and existing products. Research costs are expensed as incurred. Development costs are expensed unless they meet specific criteria related to technical, market and financial feasibility. Research and development costs of $4,318 (2001 – $2,746) were incurred during the year. No development costs have been deferred.

3. ACQUISITIONS AND DISPOSITION

American Water Heater Company

On April 2, 2002, the Company, through a wholly-owned subsidiary, acquired all the issued and outstanding shares of American Water Heater Company ("AWHC") of Johnson City, Tennessee. AWHC is a manufacturer and distributor of residential and commercial water heaters and other water heating products in the United States. The purchase price of $38,067 (US $23,892), including acquisition costs, was satisfied by cash payment.

The results of operations of AWHC from the date of acquisition are included in the Company's consolidated financial statements. The acquisition has been accounted for using the purchase method with the purchase price allocated to net identifiable assets at their fair market values. The following is a summary of the net assets acquired:

	$
Current assets acquired	100,923
Current liabilities assumed	(39,882)
Working capital	61,041
Capital assets acquired	46,900
Long-term liabilities assumed	(69,874)
Net assets acquired	38,067

The agreement of purchase and sale provides for additional contingent consideration payable in cash of up to US $15,000 if certain earnings targets and product liability cost targets are achieved in each of the financial periods ended December 31, 2002, 2003 and 2004. The targets as of December 31, 2002 were not achieved, which resulted in a reduction of the maximum additional contingent consideration to US $11,250. No contingent consideration has been included in the determination of the net assets acquired. As the liability for contingent consideration will be in part a function of future product liability experience, any payments will be recorded as a charge to the product liability reserve.

Rain Master®

On August 1, 2002, the Company acquired the Rain Master® brand, product line and certain manufacturing assets from Bemis Manufacturing Company for vinyl rainware systems. The assets have been transferred to the Company's Building Products manufacturing operations in Barrie, Ontario. The purchase price was satisfied by cash payment and was substantially allocated to long-term assets based upon the fair value of the net identifiable assets acquired.

Aermotor Pumps, Inc.

On April 27, 2002, the Company disposed of its investment in Aermotor Pumps, Inc. ("Aermotor") to Sta-Rite Industries, Inc. for net cash proceeds of approximately $21,098. Aermotor manufactured and distributed fluid pumps and pump related products. The Company recorded a gain of $4,600 on the disposition. As a result of the disposition of Aermotor, the balance in the Company's Cumulative Translation Account at the time of disposal was substantially realized.

4. MARKETABLE SECURITIES

Marketable securities consist of US dollar denominated money market instruments. The Company has pledged marketable securities in support of a letter of credit in the amount of US $10,700 provided to an insurer. The letter of credit was provided to the insurer in connection with the establishment of an insurance program to assist in the management of product liabilities assumed on the acquisition of AWHC. Accordingly the marketable securities have been classified as a long-term asset.

5. CAPITAL ASSETS

Capital assets consist of the following:

2002	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	2,097	–	2,097
Buildings	19,972	3,195	16,777
Machinery and equipment	65,745	34,118	31,627
Computer systems	5,406	2,867	2,539
Tooling	4,331	2,317	2,014
Assets under construction	3,923	–	3,923
	101,474	42,497	58,977

2001	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	464	–	464
Buildings	7,103	3,360	3,743
Machinery and equipment	46,909	34,715	12,194
Computer systems	4,674	2,731	1,943
Tooling	1,048	385	663
	60,198	41,191	19,007

6. CAMCO INC.

The Company holds 20% of the common shares of Camco Inc. The market value of the investment at December 31, 2002 was $10,605 (2001 – $9,604), based on the quoted market price. The realizable value of this investment may be more or less than that indicated by the market quotation less applicable income taxes. During the year, the Company recorded dividend income in the amount of $NIL (2001 – $560).

7. BANK INDEBTEDNESS

The Company has a $30,000 bank prime rate based revolving borrowing facility from a Canadian financial institution. As at December 31, 2002 and 2001 no amounts were outstanding under the facility.

A subsidiary of the Company has a revolving borrowing facility of US $30,000 (CDN $47,300) from a US financial institution. Revolving credit loans bear interest at bank prime plus 0.25% and letters of credit bear interest at 2.25% plus a 0.25% fronting fee. A standby fee of 0.375% is payable on the undrawn portion of the facility. As collateral, the subsidiary has provided the lender with a general security agreement and an assignment of insurance.

As at December 31, 2002 the subsidiary had US $1,461 (CDN $2,304) in revolving credit loans outstanding and US $300 (CDN $470) in letters of credit. The outstanding revolving credit loans bear interest at 4.5%. The gross assets of the subsidiary as at December 31, 2002 were US $98,311 (CDN $155,027).

Cash interest paid on the Company's borrowing facilities was $231 for the year (2001 – $NIL).

8. LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

	2002	2001
	$	$
Product liability	44,213	–
Warranty	28,589	5,832
Pension	7,716	–
Insurance loss reserve	7,236	–
	87,754	5,832
Less current portion	(8,130)	(1,336)
	79,624	4,496

The increase in long-term liabilities arose substantially as a result of the acquisition of American Water Heater Company.

9. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Class "A" Common Shares without nominal or par value, an unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, and an unlimited number of preference shares without nominal or par value.

The Class "A" shares have identical terms and features as the Class "B" shares, except that the Class "A" shares have 100 votes per share and the Class "B" shares have one vote per share. A holder of Class "A" shares may, at any time, convert them into an equal number of Class "B" shares.

The details of issued share capital are as follows:

	2002		2001	
	Number issued and outstanding	Amount ($000's)	Number issued and outstanding	Amount ($000's)
Class "A" common	750,108	442	750,553	442
Class "B" subordinate voting	2,669,813	1,672	2,669,368	1,672
	3,419,921	2,114	3,419,921	2,114

The Company had approval by the Toronto Stock Exchange ("TSX") to undertake a normal course issuer bid for purchases of its Class "A" Common Shares and Class "B" Subordinate Voting Shares through the facilities of the TSX that expired in November 2001. During the year ended December 31, 2001, the Company purchased 30,900 Class "A" Common Shares and 121,000 Class "B" Subordinate Voting Shares for $1,648 at an average purchase price of $10.85 per share. All purchased shares were cancelled. The excess of the purchase price over the stated value of $1,554 was recorded as a charge to retained earnings.

During the year, 445 Class "A" Common Shares (2001 – 100) were converted on a one-for-one basis to Class "B" Subordinate Voting Shares.

Executive stock option plan

Shareholders approved an Executive Stock Option Plan in 1993 pursuant to which 180,000 Class "B" Subordinate Voting Shares have been reserved for grant. No options have been issued or have been outstanding during the years ended December 31, 2002 and 2001.

Dividends

The Company paid a regular dividend of $0.20 per share (2001 – $0.20) and a special dividend of $3.80 per share (2001 – NIL) during the year.

10. EARNINGS PER SHARE

The weighted average shares outstanding during the year used to calculate earnings per share was 3,419,921 (2001 – 3,448,246). The Company has no securities that have a dilutive impact on earnings per share.

11. UNUSUAL ITEMS

During the year, the Company recognized a gain on disposition of a subsidiary (note 3) of $4,600 and as at December 31, 2002 recorded a $6,900 charge related to the discontinuance of its composite deck product and for certain future expenditures related to water heaters.

During the year the Company ceased production of its composite deck product pending a complete review of the product and its cost of manufacture. Additional development was undertaken that indicated the cost of manufacturing would be reduced, but that an incremental investment in machinery and equipment was required. The decision has been made not to invest the additional capital at this time to resume production. As a result, the machinery and equipment acquired to manufacture the composite deck product has been written down to its estimated realizable value and a charge was recorded as an unusual item.

The Company is in discussions with certain of its water heater customers to jointly complete an inspection, and if required, service of one type of gas water heater sold to these customers in the mid 1990's. Although final agreements have not been reached with the customers, the Company has recorded a provision as of December 31, 2002. The expenditures are expected to be made in the 2003 year and beyond.

During the 2001 fiscal year the Company recorded a charge of $4,300 related primarily to a defective water heater part purchased from a supplier and for costs related to discontinued products. The Company proceeded with actions against the parts supplier. No settlement was reached with the supplier during the year ended December 31, 2002.

12. INCOME TAXES

The Company's (provision) recovery for income taxes is as follows:

	2002	2001
	$	$
Income taxes (provision) recovery at combined Canadian federal and provincial rates of 38.6% (42.0% in 2001)	(3,890)	2,153
(Increase) decrease in income taxes recovery (provision) applicable to:		
Non-taxable foreign currency gain on sale of foreign subsidiary	945	–
Foreign tax rate differential	240	(77)
Manufacturing and processing deduction	–	(83)
Reduction in corporate tax rates	(297)	165
Other items	(552)	(185)
(Provision) recovery for income taxes	(3,554)	1,973
Represented by:		
Current income taxes	(6,985)	1,897
Future income taxes	3,431	76
	(3,554)	1,973

The tax effect of the temporary differences that give rise to future income tax assets and liabilities are comprised of the following:

	2002	2001
	$	$
Future income tax assets:		
Warranty provision	10,546	2,880
Product liability	9,665	–
Pension liability	2,487	–
Other liabilities not currently deductible for tax	6,907	2,685
Total future income tax assets	29,605	5,565
Future income tax liabilities:		
Capital assets	15,993	444
Prepaid expenses	5,140	–
Investment in Camco Inc.	1,000	1,085
Total future income tax liabilities	22,133	1,529
Future income tax assets, net	7,472	4,036
Less: current portion of future income tax assets	4,937	2,287
Long-term future income tax assets	2,535	1,749

Income taxes paid during 2002 were $3,715 (2001 – $240).

13. EMPLOYEE BENEFIT PLANS

Defined benefit pensions

The Company assumed on the acquisition of AWHC defined benefit pension plans providing pension benefits to most of AWHC's employees. Information about these plans, in aggregate, is as follows:

	$
Change in accrued benefit obligation	
Accrued benefit obligation, beginning of period	17,224
Current service costs	911
Interest cost	766
Benefits paid	(278)
Accrued benefit obligation, end of year	18,623
Change in plan assets	
Fair value of plan assets, beginning of period	9,189
Actual return on plan assets	(312)
Employer contributions	1,371
Benefits paid	(278)
Fair value of plan assets, end of year	9,970
Unfunded deficit, end of year	8,653
Unrecognized actuarial (loss)	(937)
Accrued pension liability recognized in financial statements	7,716

The Company's net pension benefit expense is as follows:

	$
Current service cost	911
Interest cost	766
Expected return on plan assets	(625)
Net pension expense	1,052

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows:

	%
Discount rate	6.5
Expected rate of return on plan assets	8.5
Rate of compensation increase	4.0

Defined contribution pension
Employer contributions to various defined contribution pension plans of $1,487 (2001 – $790) were expensed during the year.

14. COMMITMENTS AND CONTINGENCIES

Lease commitments
The Company is committed to premises and equipment leases with terms expiring at various dates. The future minimum lease payments over the next five years are as follows:

	$
2003	2,516
2004	1,231
2005	590
2006	244
2007	155
	4,736

Contingencies
In the normal course of operations, the Company becomes involved in various claims and legal proceedings. While the final outcome with respect to such matters cannot be predicted with certainty, it is the opinion of Management that adequate provisions have been made in the accounts and that the ultimate resolution of such contingencies will not have a materially adverse effect on the Company's consolidated financial position or results of operations.

The Company has established liabilities for environmental compliance for existing and former manufacturing facilities based upon managerial estimates, relying on currently available facts, existing technology, presently enacted laws and regulations and the professional judgment of consultants. Any change in the estimated liability based upon new information would be charged to income.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Foreign currency risk
The Company has significant operations conducted by self-sustaining subsidiaries that are located in the United States or that operate based on the US dollar. Foreign exchange gains or losses related to the Company's net investment is deferred in the Cumulative Translation Adjustment account.

The parent company and subsidiaries located in Canada maintain their accounts in Canadian dollars. The Company's foreign currency denominated cash, accounts receivable, other assets and accounts payable balances as at December 31, 2002 were approximately US $15,000. The Company's Canadian operations enter into foreign exchange contracts to hedge selected identified US sales and purchases. The Company's market risk with respect to foreign exchange contracts is limited to the exchange rate differential. As at December 31, 2002 the Company had foreign exchange contracts to purchase between May and November 2003 US $8,000 (2001 – NIL), at an average rate of 1.5998. The notional amount and fair market value of the contracts at December 31, 2002 was $12,798 and $12,615 respectively.

Credit risk
Credit risk relates primarily to accounts receivable from its customers. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based upon credit risk applicable to particular customers, historical trends and economic circumstances.

One customer in the Water Products segment represents 47% of the total accounts receivable outstanding at December 31, 2002 (2001 – one customer in the Building Products segment represented 25% of the total accounts receivable). For the year ended December 31, 2002, one customer in the Water Products segment accounted for 35% of annual sales (2001 – one customer in the Building Products segment represented 17% of annual sales).

Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued charges and bank indebtedness approximate their carrying value due to the short-term maturities of these instruments.

16. SEGMENTED INFORMATION

The Company's manufacturing operations comprised three operating segments, all of which manufactured products primarily for the residential building products industry. During the second quarter, the Company acquired American Water Heater Company and sold its investment in Aermotor Pumps, Inc. These transactions were undertaken as part of the Company's strategic decision to focus on two core platforms – Water Products and Building Products. As a result, effective April 1, 2002, the Company defined its operating segments as Water Products, Building Products and Pump Products. Prior period segmented information has been restated to conform to these defined segments.

The operations of the Water Products and Building Products segments are described in note 1. The Pump segment includes the operations of Aermotor Pumps, Inc. to its date of disposition.

Industry Segments

	Water Products		Building Products		Pump Products		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$	$	$	$	$	$	$	$
Sales to external customers	**345,816**	99,070	**42,393**	41,709	**25,642**	81,705	**413,851**	222,484
Segment profit (loss)	**6,310**	104	**1,455**	(450)	**(2,470)**	(5,011)	**5,295**	(5,357)
Gain on disposal of Aermotor							**4,600**	–
Interest income							**179**	232
Investment income							**–**	560
Income taxes							**(3,554)**	1,973
Net income (loss)							**6,520**	(2,592)
Identifiable assets	**184,276**	25,697	**12,281**	9,842	**–**	28,344	**196,557**	63,883
Corporate assets							**48,943**	43,526
Total assets							**245,500**	107,409
Capital expenditures	**6,665**	622	**1,014**	4,254	**630**	997		
Amortization	**6,522**	1,288	**2,547**	1,465	**212**	737		

Geographic Information

	Sales		Capital Assets	
	2002	2001	**2002**	2001
	$	$	$	$
USA	**314,622**	113,743	**45,374**	3,648
Canada	**99,229**	108,741	**13,603**	15,359
	413,851	222,484	58,977	19,007

Revenues are attributable to geographic areas based on the location of the customer.

17. SUBSEQUENT EVENT

On January 20, 2003, a subsidiary of the Company acquired from SRP 687 Pty Ltd ("SRP 687") certain intellectual property assets owned by SRP 687 related to the design and manufacture of flammable vapour-resistant gas water heaters. The acquired technology has been utilized by a subsidiary of the Company under a license agreement from SRP 687 in the manufacture of a line of flammable vapour-resistant gas water heaters.

CORPORATE INFORMATION

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President
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Geoffrey A. Cumming[1]
Vice Chairman
Gardiner Group Capital Limited and
Garbell Holdings Limited
Deputy Chairman
Emerald Capital Limited

Andrew A. Ferrier
President & Chief Executive Officer
GSW Inc.

William C. Garriock[2]
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MDS SCIEX

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Elizabeth J. Malcolm[1]
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Valleydene Corporation Limited

Bruce H. Mitchell[2]
Chairman & Chief Executive Officer
Permian Industries Limited

Gary L. Moreau[1]
President
Pratt's Hollow Advisors LLC

Nancy G. Thomson[1]
Corporate Director

1 Member of the Audit, Environmental and Pension Committee

2 Member of the Management Resources, Compensation and Corporate Governance Committee

OFFICERS

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Chairman

Andrew A. Ferrier
President & Chief Executive Officer

James M.E. Hyde
Vice President,
Finance & Chief Financial Officer

Peter M. Sharpe
Executive Vice President,
Corporate Services

Robert R. Cranston
Secretary

OPERATING MANAGEMENT

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SHARE TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Ontario

BANK

The Bank of Montreal
Toronto, Ontario

Fleet Capital Corporation
Chicago, Illinois

AUDITORS

Ernst & Young LLP
Kitchener, Ontario

SHARE LISTING

Stock Symbols: GSW.A and GSW.B
Exchange: Toronto Stock Exchange

The Annual Meeting of Shareholders will be held on Wednesday, April 30, 2003 at 11:00 a.m. at The Fairmont Royal York, Upper Canada Room, 100 Front Street West, Toronto, Ontario, M5J 1E3.

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